

**Statement of The Honorable Linda M. Combs
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**Before the
Subcommittee on Government Management, Finance, and Accountability
Committee on Government Reform
United States House of Representatives
November 17, 2005**

Thank you, Chairman Platts and Members of the Committee.

I am pleased to be here today to provide this Subcommittee with the Administration's perspective on the past, present, and future of the Chief Financial Officers (CFO) Act and the state of financial management within the Federal Government. I will discuss the circumstances that brought about the Act, compare the environment fifteen years ago to today, describe what the Administration has accomplished to date to further the Act, and speak to the road ahead.

When the CFO Act was signed fifteen years ago, the Federal Government was responding to numerous financial management challenges. At that time, the former Comptroller General testified that billions of dollars were 'at risk' in the Federal Government's programs due to inadequate financial management systems and controls. The CFO Act was a direct response to these deficiencies and was directed toward reforming financial management practices within the Federal Government. In short, the Act called for stronger financial leadership, more disciplined financial controls, improved financial management systems, and accurate and timely financial information for decision-making. These requirements have driven significant financial management reform over the past fifteen years and continue to advance financial management improvement.

Today, the primary mechanism the Administration uses to promote financial improvement is the President's Management Agenda (PMA) initiative for Improving Financial Performance. Under this initiative, the President identified a limited number of clear, meaningful, and attainable financial goals that every Federal agency must meet. Each individual goal (e.g., receiving an unqualified opinion on audited annual financial statements) is an indicator of financial management excellence. Agencies who do not meet individual goals must prepare action plans for meeting them as well as demonstrate ongoing progress in achieving results.

Stronger Financial Management Leadership

A significant improvement driven by the PMA's financial improvement effort has been its influence in unifying the government's CFOs. Namely, every CFO across the Federal Government now shares common goals for improving financial performance.

Further, Federal agencies, Congress, and the public can compare how well each agency is performing in meeting those goals. In my role as Controller, I work closely with each of the CFOs to develop financial management improvement plans and monitor results. I am encouraged by their hard work and professional efforts to improve Federal financial management.

I have observed that when agencies are preparing their plans to respond to their specific weaknesses, the CFOs seek the counsel of other CFOs for best practices and other innovative ways to address financial weaknesses. Because of this collaborative spirit, I believe we have gone beyond the CFO Act's organizational and leadership requirements of a centralized financial management leadership structure within the Office of Management and Budget (OMB) as well as having CFOs at every agency. Specifically, we have created a financial management community that works closely with one another through councils and forums across the Federal Government to respond to long-standing and arising financial challenges.

More Disciplined Financial Reporting and Controls

In addition to requiring stronger financial leadership, the CFO Act addressed the need for reporting practices that disclosed the current and probable future costs of operating and investment decisions. To satisfy this requirement, the Act required that agencies prepare and submit annual audited financial statements. This provision addressed the need for greater accountability over how taxpayer dollars were being spent. The first year after its enactment, five pilot agencies prepared and submitted financial statements on their fiscal year 1990 activity. It was apparent, however, that there was a need for more transparency into the government's financial health in order to fulfill the financial statement reporting requirement and enable comparison across Federal agencies and programs.

To respond to the need, the Federal Accounting Standards Advisory Board (FASAB) was created to develop generally accepted financial accounting and reporting standards across the Federal Government. Federal agencies were required to comply with this common set of accounting and financial reporting standards and their compliance was measured by independent audits.

The FASAB standards were only a first step. Agencies continued to spend considerable time and effort after the end of the fiscal year to produce reliable financial reports. To put this into perspective, when this Administration came to office, the CFO Act agencies took as long as five months to complete their financial statements. Today, I am pleased to report that CFO Act agencies are able to prepare and have audited their financial statements in about 45 days. A majority of these agencies have also received unqualified opinions on their financial statements in an environment of heightened accountability. In addition to reducing the amount of time for producing audited financial statements, since fiscal year 2001, agencies have reduced the number of auditor-reported material weaknesses by nine percent and the number of management reported weaknesses by 75 percent. This result is especially noteworthy since greater fiscal

discipline was needed to successfully meet the new and more aggressive reporting deadline.

To make accelerated financial reporting more routine, the Federal Government is committed to strengthening internal controls and improving the efficiency of our financial processes. A strong foundation of effective internal control is essential to support the production of timely and reliable financial information. OMB has emphasized this in OMB Circular A-123, *Management's Responsibility for Internal Control* (A-123). The A-123 defines management's accountability and responsibility for maintaining effective internal control. Revisions were made to A-123 in December 2004 providing agencies with a framework for assessing and managing financial reporting risks more strategically and effectively. Beginning in fiscal year 2006, management is required to undertake a strengthened internal control assessment process, including documenting and testing the controls over financial reporting. This process is similar to what public companies must follow under the Sarbanes-Oxley Act. OMB is taking a very active oversight role in implementing the new requirements contained in A-123.

To ensure agencies are continuing on the right path, OMB has required that agencies submit agency-specific implementation plans for the new A-123 requirements. Over the next several months, agencies will complete risk assessments, identify key processes and controls, and test these controls to determine their effectiveness. This effort will culminate in the agencies' first management assurance statement for internal control over financial reporting as of June 30, 2006. Key milestones from the plans will also be incorporated into the Improving Financial Performance initiative scorecard under the PMA to ensure agencies are accountable for meeting their goals. While the Administration anticipates that the A-123 activities may uncover more weaknesses in the near-term, we believe financial reporting will only be strengthened in the long-term. We will continue to use the PMA goals, the agency plans to comply with these goals, and our ongoing interaction with agencies to ensure that agencies continue to make measurable progress.

Timely and Reliable Financial Information

As agencies continue to reduce the timeframe to publicly report their financial results as well as reduce the number of material deficiencies, agencies move closer to the true goal of financial accountability. Namely, we are ensuring that agencies produce complete, reliable, timely, and consistent financial information for use by the executive branch of the Government and the Congress in the financing, management, and evaluation of Federal programs. To produce reliable and timely information, agencies need financial management systems that support accounting standards and controls. Thus, another PMA goal is that agencies implement modern, compliant financial management systems that provide reliable, useful, and timely financial information for decision-making. Agencies are making steady progress in achieving this goal.

The PMA also focuses on ensuring that the resources entrusted to the Federal Government are well managed and used wisely. One of the guiding principles for the

President's vision is for the government to be results-oriented. To achieve 'green' status, agencies must go beyond having an unqualified audit opinion, meeting reporting deadlines, and resolving material weaknesses. Agencies must present evidence to OMB that financial information is available for managers on demand and that information is actively being used to drive results in key areas of operations. OMB assesses many factors including: the outcomes that agencies are looking to achieve, how agencies are using data strategically to drive the outcomes, and how agencies will measure the results to know the desired outcomes were achieved. In order to maintain 'green' status, agencies need to have a plan to continually expand their efforts so that all managers have the financial information needed to operate their programs.

The Road Ahead

The outlook for the Federal Government to improve the quality and timeliness of financial reporting and to fulfill our stewardship responsibilities to the American citizen is favorable. Using the PMA, the Administration has identified and focused every Federal financial manager on addressing the most significant financial deficiencies across the government. The road ahead continues to follow the path that the President has laid out: continuing to use financial information more strategically, strengthening internal control, and quantifying improvements and achievements in terms that everyone understands. Keeping this in mind, I would like to highlight two key initiatives where the Administration is focusing its efforts for using financial information to manage and reduce cost: eliminating improper payments and improving the stewardship and accountability over real property.

Reducing improper payments is a key indicator of agency financial management improvement efforts. This year's Performance and Accountability Reports will report that agencies are making significant progress in reducing the approximately \$45 billion of improper payments identified last year, and that they are continuing to improve their detection and prevention of additional improper payments. As "new" improper payments are identified, agencies are moving quickly to initiate corrective actions to address the root causes of error.

Another component of sound fiscal management is managing our real property and inventories at the right size and cost. The Federal Real Property Asset Management initiative under the PMA has heightened awareness of this objective and is leading to better asset management decisions. The ultimate goal of this initiative is to develop and implement the necessary tools (e.g., planning, inventory, performance measures) to improve management decision-making so that property inventories are maintained at the right size, cost, and condition to support agency mission and objectives. Through the PMA, the Administration is holding agencies accountable to utilize improved planning and data gathering to implement specific rightsizing activities that will reduce surplus assets, improve the condition of mission critical assets, and ensure that assets are managed at the right cost.

A foundation of effective internal control is critical to realizing the goals above. Federal agencies are making significant progress in mitigating risks and reducing the amount of material internal control weaknesses that may lead to program inefficiencies and improper payments. CFOs will need to continue to provide strong leadership, innovative thinking, careful planning, and more disciplined processes as they manage more diverse and complex operations with less resources and tighter timeframes than fifteen years ago. As Controller, I will continue to lead the Federal financial management community in achieving the President's vision and goals for improving financial management.

Thank you, Mr. Chairman for the opportunity to speak before you today. I am pleased to address any questions.